



Grant Thornton 

UNITED STATES MARINE CORPS

ACTIVITY-BASED COSTING AND MANAGEMENT

PROJECT PLAN



United States Marine Corps

Project Plan for Activity Based Management and Performance Services

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United States Marine Corps

Project Plan for Activity Based Management and Performance Services

Background

The objective of United States Marine Corps (USMC) Activity Based Management and Performance Services initiative is to improve business operations and reduce operating costs at its bases and air stations as part of the Corps Installation Reform Business Plan. Accordingly, the Marine Corps requires assistance in using Activity-Based Costing and Management (ABC/M) in order to improve business operations and reduce costs at its bases and air stations (“installations”) worldwide. As a result of this initiative, the USMC will achieve improved business operations as well as cost savings, while at the same time increasing productivity and customer satisfaction. Overall, USMC seeks short-term cost savings of \$32M by October 2001.

Objectives

The purpose of this project is to assist the Marine Corps in using Activity Based Costing and Management (ABC/M) models to define and improve installation activities and reduce cost at their bases and air stations. The desired USMC project results are the realization of short-term savings and in the facilitating of long-term systematic improvements that will support long-term reductions in costs without reducing the quality and delivery of goods and services. Specifically, the Marine Corps ABC/M implementation objectives are:

- Achieve near-term savings goals
- Improve visibility of cost and performance data at installations
- Measure performance across installations
- Benchmark installation activities internally across installations and externally with private industry
- Focus improvement efforts on high impact activities
- Support A-76 studies
- Comply with the Secretary of Defense policy to implement ABC/M
- Transfer knowledge to grow the Marine Corps in-house capability to utilize ABC/M tools more fully in the future
- Use Activity Based Budgeting (ABB) as a follow-on for the sustaining and management of the ABC/M system

- Use a Marine Corps – wide communications strategy that advocates and supports required change
 - Internally to Marine Corps executives, middle management, rank and file, unions, and Human Resource Office (HRO) and other functional staff leadership
 - Externally to the Secretary of Defense, Congressional members, Navy staff, press and other external stakeholders.

Approach

Our approach for supporting the accomplishment of the Marine Corps' objectives for this project will be characterized by a Learn-by-Doing approach. In order to achieve the stated goal of knowledge transfer, commanders and their staffs must work with the tools, perform the analysis, and make the decisions. As they accomplish these tasks, they will begin to institutionalize ABC/M in their organizations' day-to-day operations. Throughout the process, the Grant Thornton ABM team will be on site to teach, mentor, and recommend as the commanders and their staff work to achieve project objectives. After completion of the initial ABC modeling efforts, the GT ABM team will work closely with the installation ABC/M team to achieve the ABM project requirements.

In addition, in order to sustain continued success and momentum of ABC/M at Marine Corps installations, Grant Thornton will establish an ABC Center of Excellence (CoE) at our Vienna, Virginia office dedicated to Marine Corps ABC/M and the success of this project. The purpose of the CoE is to provide a full-time rapid response source of ABC/M expertise with first hand knowledge of Marine Corps installation operations, ABC modeling efforts, and ABM.

Grant Thornton has developed the following approach for this project by integrating Marine Corps stated objectives and critical success factors from its Performance Work Statement (PWS) into the following tasks. These tasks will be accomplished subject to the level of sophistication of each installations model structure and the time constraints and ability of installation team members to grasp the associated skill sets. A brief summary and discussion of each task follows.

Task 1 – Project Plan

This document, the Project Plan, will be used as a guide to manage the project. Delivery of this document constitutes completion of Task 1.

Task 2 – Achieve Installation Commanders' Savings Goals

Grant Thornton views this objective as the number one priority near-term goal for this project. Reductions of 5-10% of total installation budgets will require intense and focused examination of all categories of resources and how those resources are driven to feed activities performed by installation personnel. The ABM methodology consists of the following steps and actions:

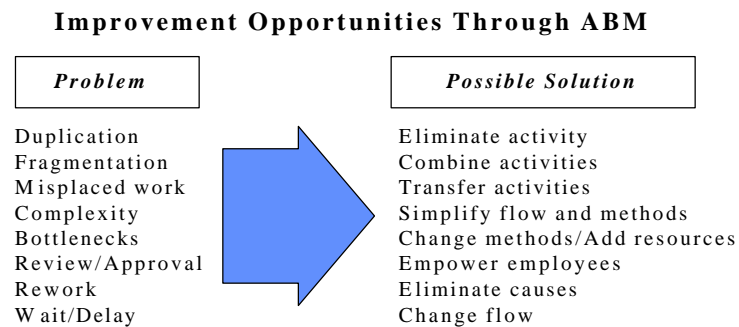
- Obtain active commitment to the ABC/M process by installation leadership and staff
- Provide appropriate ABC/M training for personnel at all levels
- Active participation by Grant Thornton with ATI and installation ABC/M project teams in the Rapid-Path process
- Development of user-defined activity matrices, root cause and other analysis tools that include factors such as:
 - Activity cost
 - Activity value, both internally and externally
 - Activity priority (e.g. mandatory, regulatory, deferrable, direct mission, etc.)
 - Activity duplication
- Application of best business practices from commercial and government success stories
- Identification and impact of resource and activity reductions or elimination
- Development of “what-if” scenarios that employ resource and activity modifications
- Ability of Marine Corps to actually effect changes required
- Measurement of change effects and development of alternative strategies.

Task 3 – Focus Improvement Efforts on High Impact Activities

This task will focus on analyzing the list of high impact activities identified during the model-building phase and, together with the installation ABC/M project team, establish the priorities for improvement efforts. The team will focus on using tools already available to the Marine Corps. Primary emphasis will be on applying the more advanced features of the Oros suite of analysis applications. Marine Corps personnel will work jointly with Grant Thornton representatives to permit appropriate knowledge transfer during this task. Specifically, this task will entail, where possible, the following:

- Enhance model attribute structure to help determine where and how improvement efforts should be directed.
- Use the Oros Flowchart application, link identified high impact activities to decompose processes as the first step in any re-engineering effort.
- Use the Oros Strategies application (if available) to focus installation attention and efforts on aligning the work being done with the stated objectives of the base commander.
- Perform process flow and root cause analysis to identify the drivers and causes of cost.
- With functional area and staff personnel, apply the results of the above analysis to identify opportunities for re-engineering processes and restructuring organizations that may reduce costs while maintaining production levels.
- Use the Oros Scenario Builder application and other features of the modeling tool to “test” decision and predict alternative financial impact scenarios.

ABC/M uses ABC and business process attribute information to improve business processes by reducing cycle time through the elimination of activities deemed “non-value added” from the end customer’s perspective, while optimizing activities that add value to the final product or service. The figure below summarizes typical problems uncovered by ABM and possible solutions.



Task 4 – Improve Installation’s Cost and Performance Data Visibility

For ABC/M to become part of the operating culture of an organization, there must be consistent use of the data produced in the decision making process. A structured reporting system, along with the ability to produce ad hoc extracts for specific situations, is essential for this to occur. The basic system should be automatic; displaying key data on decision-makers’/managers’ computer screens. A more robust set of on-call ad hoc reports should also be developed, to promote in-depth analysis of processes and organizations. To facilitate the use of the reporting structure there also needs to be a means of rapidly updating/refreshing models with new period data, so that installation personnel can focus on using the information, and not devoting all of their time to the “care and feeding” of the models. Specifically, Grant Thornton will, where possible, do the following:

- Use Oros Links, Oros Reports, or Oros Designer/Cognos applications and other appropriate software tools (MS Office, et. al.), to assist the installation in developing a basic reporting framework and structure to put pertinent information into the hands of decision makers.
- Provide installation personnel with the necessary guidance on creating and implementing the “Robust” reporting structure.

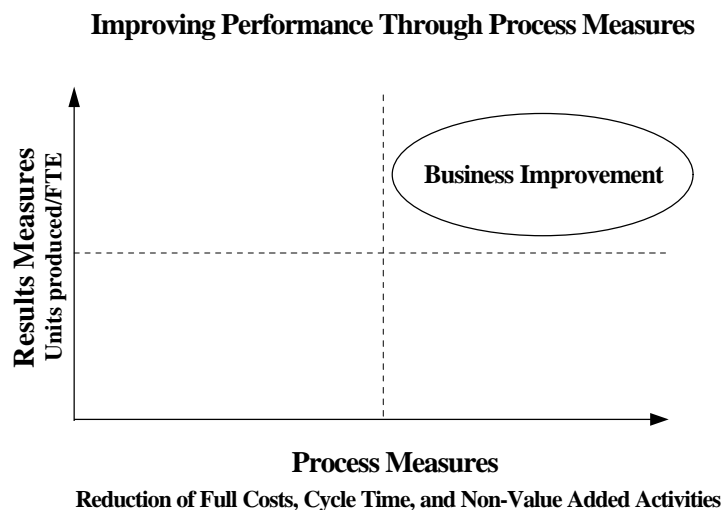
Task 5 – Installation Performance Measures

The measuring of performance is one of the most difficult, yet one of the most significant endeavors of any organization pursuing ABM. The metrics developed must tell a story and the tracking of these statistics must prove good indicators of trends. Answering the “why” of these metrics should lead an organization to process and product improvements. In order for this to

be done across installations, Grant Thornton will coordinate the development of these metrics with ATI (for incorporation into the models where appropriate), HQMC, and the installation project teams. We propose the following actions in accomplishing this work:

- Working with installation team functional experts, identify five to seven key metrics per modeled organization that are accurate and meaningful indicators of the health and direction of those organizations.
- Mentor and guide installation project team in developing inexpensive methods and systems to collect necessary data where the data is not already available.
- Assist HQMC in developing reporting requirements that foster willing compliance from installations.
- Incorporate performance metrics into installation models.

As illustrated in the figure below, these process measures should be used in conjunction with traditional results-oriented measures to evaluate performance. For example, traditional measures, such as number of units produced per FTE, are important but do not tell the whole story from a business improvement perspective. Managers should also examine the process through which the units were produced or delivered to the customer. Maximization of both sets of measures will optimize true business improvement opportunities.



Task 6 –Benchmark Installation Cost and Performance

The task of measuring performance across individual installations is the first step in benchmarking; establishing meaningful and achievable standards both internally and externally is the second. Our approach in benchmarking internal cost and performance at individual installations starts with utilizing a blend of information generated from ABC modeling efforts, input from commanders and installation project teams, and success story methodologies from

public and commercial sectors. The specific steps we plan to use to achieve success for this objective are as follows:

- Using metrics established from installation ABC modeling efforts, determine process component activities and resources driven to those activities.
- Through analysis, determine commonality of process activities.

Benchmarking the costs and performance of a process with unique characteristics can be useful for internal purposes but may not be meaningful externally, such as across the Marine Corps.

Certain component activities that comprise the process may require weighting or other factoring so as to create a balanced performance playing field (e.g. regional cost per hour of labor).

- Identify processes whose component activities are core, common, and whose metric performance values rate highest within a comparable group. These processes become the standard.
- Apply the preceding rule of process and component commonality to activities to determine benchmarking standards across multiple installations. This rule becomes the criteria for external benchmarking.

Cost and performance measurement is a key ingredient and valuable tool in realizing improved organizational efficiencies, effectiveness, and ultimately cost savings. However, it is critical that processes being measured and compared share common activity component structure. If this rule is not followed, the basis of comparison will be invalid.

Task 7 –Transfer Knowledge to Develop the In-house ABC/M Capability

Our prime objective in this task is to train and guide installation personnel to take ownership and control of ABC/M improvement processes. Given the short timeframe involved in this project, it is imperative that the installation team gains the required knowledge and achieves the “results” by performing hands-on work.

Therefore, installation staff and functional area personnel will collect necessary data, enter and import it into appropriate tools, analyze the resultant information, recommend decisions and implement them. Using a combination of workshops and individual training sessions throughout this process the Grant Thornton ABM team will teach, mentor and recommend options to keep organizations pointed in the right direction. This *partnership approach* with base team staffs provides an ideal environment for training and knowledge transfer activities.

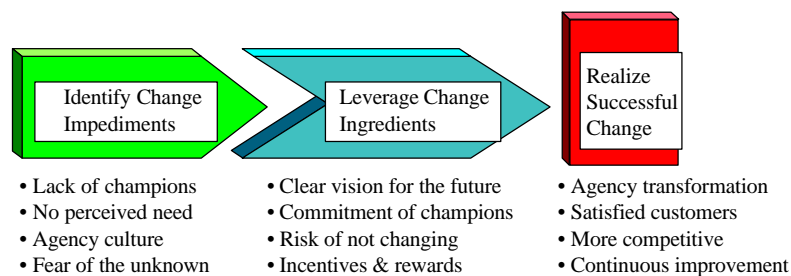
As individual bases progress towards achieving local objectives, the HQ Marine Corps staff can achieve additional savings through continued use of ABC/M opportunity identification techniques. As the Grant Thornton Marine Corps Center of Excellence accumulates success stories, lessons learned, and specific installation experience, this accumulation of knowledge will be available by transferring CoE responsibilities and operation to the Corps. Grant Thornton will mentor HQ Marine Corps staff teams with ABC/M tools and skills to accomplish a parallel

knowledge transfer to Headquarters edge and ABM skills of the CoE. The transfer of CoE responsibilities and control could be most effectively accomplished if the Marine Corps chooses to exercise the option for additional Business Process Reengineering (BPR) support as outlined in the PWS.

Task 8 – Use effective communication strategy to advocate and support required organization change

This task focuses on the required actions that opportunities brought about by ABM will require in the form of significant decisions on the part of Marine Corps leadership. ABC/M enables agencies to transform themselves by helping them focus on business improvement. However, successful change requires that agencies, and those who manage them, actually change the way they think about what is possible. Under ABC/M, Marine Corps leaders will find their roles shifting over time from managing *people* to managing *business processes and activities*.

Elements of Change Management



Continued change within the Marine Corps will require that decision-makers demonstrate increasing leadership. As the above figure illustrates, decision makers need to recognize and deal with impediments to change, understand and foster necessary ingredients for success, and maintain and articulate a clear vision of the Marine Corps' future to successfully manage change. In public and private organizations alike, successful long-term substantial organizational changes depend on senior management demonstrating the “*skill and will*” to transform the organization. This requires that decision-makers know the kind of change sought by the organization and have the means necessary to attain success. By increasing management’s knowledge of ABC/M principles and management techniques, the Marine Corps can equip its leaders with the “*skill*” necessary to help the agency operate like a business. The “*will*” depends on the active role played by influential “*champions*” such as the installation Commanders and key Marine Corps senior leadership. Grant Thornton will assist the Marine Corps in developing an effective communications strategy to advocate and support required organizational change that includes at least the following elements:

- Continuously articulate commitment to this project and ABC/M across the Marine Corps by senior leadership, installation Commanders and at all levels

- Actively participate in key ABC model and ABM decision points by installation Commanders, leadership and at all levels
- Keep key stakeholders in the loop
- Communicate results to installation/base personnel (reports, briefings, informal conversations, etc.)
- Use existing and other communication infrastructure to advertise ABC/M (i.e., newsletters, Web sites, etc.)
- Ensure assignment to an installation ABC/M project team is a reward and not a penalty
- Promote team momentum
- Promote and assess readiness for change management
- Obtain and advertise early ABC/M success stories
- Rapidly correct ABC/M program obstacles
- Empower decision-makers to actually effect change
- Communicate results to the Center of Excellence, both good and bad
- Use the Center of Excellence to solve problems
- Expect near-term and long-term savings and success.

Task 9 – Gain and Maintain Installation Commander and Staff Commitment and Participation

Those who have broad knowledge of the Marine Corps mission and its future vision make ideal “champions”. These champions form partnerships, provide guidance and support, and make resources available to bring about positive change. To help ensure this important project succeeds at its installations, the Marine Corps needs active and vocal spokespersons throughout organizations, starting with the installation Commander and other senior managers. A partnership with personnel from operational programs is essential. Financial managers, program managers, and business line managers must join forces in transforming or changing existing processes and activities.

In helping gain and maintain installation Commander and staff commitment and participation to this project as well as long-term ABC/M success, Grant Thornton will do the following:

- Ensure installation Commanders and their staff have adequate training and understanding of the ABC/M methodology
- Demonstrate ABC/M value by rapidly identifying cost saving and process improvement opportunities from actual ABC model output data
- Follow up with Commanders and staff to ensure organizational or process change decisions are actually effected and tracked
- Work with Headquarters staff to develop a mutually beneficial incentive program that rewards an individual installation when savings beyond minimum thresholds are exceeded

Task 10 – Gain and Maintain Employee and Workforce Buy-In

Gaining and maintaining general workforce buy-in to ABC/M requires a different set of motivational techniques from commanders and senior staff. The primary difference lies in that organizational or process change is much more likely to affect an individual's job security than the Commander's position. To the individual, ABC/M is *personal*. With that difference in mind, Grant Thornton proposes to work with installation leadership and help accomplish the following:

- Ensure installation employees at all levels have adequate exposure to training and understand the ABC/M methodology
- Ensure union officials or representatives have adequate exposure to training and understand the ABC/M methodology
- Advertise and promote the fact that ABC/M helps *save jobs* by *saving organizations* through attainment of most efficient organization (MEO) structure
- When cost reduction opportunities are identified, use the following reduction priorities whenever possible:
 - Reduce installation non-labor resources first
 - Reduce installation contracted services
 - Reduce installation labor resources through attrition when possible
 - Use training to refocus reduced labor resources when possible
 - Reduce installation labor resources last.

Task 11 – Achieve or Exceed Installation Customer Satisfaction with Products and Services

As the Marine Corps strives to reduce installation infrastructure costs, the maintenance of high quality products and services is a paramount issue. Organizations focused solely on cost reductions and not vigilant of the quality of the products and services they provide send a message to their customers. The challenge, of course, is how to orchestrate meaningful cost reductions while improving the quality of organizational outputs and meeting or exceeding customer satisfaction.

We have found that incorporating ABC model data and feedback from customers provides an excellent foundation from which to begin improvements. In a single view of data extracted from the ABC model software, managers can see activities, their cost, internal and external value, mission criticality and virtually an unlimited other number of attributes specifically tailored to viewer needs and desires. The result is an accumulation of decision input information brought together at a single point. Fact-based decisions are simplified.

To accomplish this task Grant Thornton will train installation ABC/M staffs on the following methodology to gather, interpret and resolve issues associated with customer satisfaction by:

- Using installation ABC models, create custom views in Oros software that attach multiple attribute values to activities and cost objects
 - Internal Value (High, medium, low, etc.)
 - External Value (High, medium, low, etc.)
 - Mission Criticality
 - Others
- Survey customers who utilize installation products and services
- Incorporate survey results into appropriate installation models
- Perform root cause analysis of low satisfaction feedback
- Incorporate activity methodology from high satisfaction feedback into activities with low satisfaction
- Correct, if possible, factors contributing to low satisfaction
- Communicate with customers and provide feedback
- Repeat this methodology periodically.

Task 12 – Manage the Project

The purpose of this task is to manage the project in alignment with the highest priorities and expectations. This project is being performed as a best effort fixed price effort. Should we determine that the required level of effort and/or project time frame is materially higher/longer or less than anticipated, we will inform you as soon as we know so that together we can modify this project plan. Moreover, to ensure we are focusing our efforts in the areas desired, we will provide a monthly status report with activities completed and planned. We will also provide oral communications and “Items for Discussion Memorandum” on an as-needed basis.

Developing an Activity-Based Budgeting (ABB) model will be the natural follow-on phase once the ABC/M phase matures to where using the ABC model and output data, as a framework tool, will permit budgeting and resource planning. The scope and length of this project will not support transitioning into an ABB environment during the course of this project.

Schedule

The Gantt chart provided in Attachment A illustrates our planned schedule. Milestones on the Gantt chart show planned delivery dates of our work products.

Deliverables

Grant Thornton will prepare and deliver the products listed below:

- Project Plan
- Final ABM Report that will include:
 - Implementation/Action Plan
 - ABM Long Term Savings Plan
 - ABC/M Sustaining Plan & Plan for expansion of USMC In-House ABC/M skills and applications capabilities
- Status Reports.

The Final ABM Report format is provided at Appendix B. This format may be modified to adjust to specific installation events and requirements.

Attachment A – Project Gantt Chart

Attachment B – Final ABM Report Format

Project Background

A brief synopsis of the 11 project objectives

Project Approach

What the team accomplished:

Participate in Rapid Prototype (RP) model development

Participate in Oros software training

Participate in storyboarding

Participate in model development

Gather data

Identification of opportunities

Additional interviews and fact finding efforts

Specific area drill-downs

Mentoring USMC ABC/M teams

Identification of savings opportunities

Extract reports from ABC models or other sources

Identification of activities and/or process for savings

Methods and approaches to effect savings opportunities

Further activity and/or process decomposition and analysis

Impact on other activities, processes and organizations

Organizational and/or process restructuring or alignment

Use of “what-if” model scenarios to predict outcomes

Potential change strategies to effect outcomes

Gaining and maintaining buy-in and support for change management

Identification of longer-term savings opportunities

Refreshing ABC/M data

Use of benchmarking within and among installations

Opportunities for regionalization and/or other system integration

Sustaining and growing USMC ABC/M skills and results

Additional training requirements such as:

Software

ABM “Boot Camp”

BPR and other organizational reengineering efforts

USMC Center of Excellence (CoE)